

Research Update:

# Switzerland-Based Graubuendner Kantonalbank Affirmed At 'AA/A-1+'; Outlook Stable

May 29, 2024

## Overview

- We consider Graubuendner Kantonalbank (GKB), a well-established midsize bank in Eastern Switzerland, to have very strong capitalization and anticipate it will maintain its low-risk lending strategy.
- We expect GKB will maintain an adequate liquidity buffer, supported by a stable deposit base.
- Crucially, we see an extremely high likelihood that majority owner, the Canton of Graubunden, would provide extraordinary support to GKB.
- We affirmed our 'AA/A-1+' ratings on Graubuendner Kantonalbank.
- The stable outlook reflects our expectation that GKB will maintain its market position in its home canton and continue to benefit from its status as a government-related entity (GRE) over the next 24 months.

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## Rating Action

On May 29, 2024, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on Graubuendner Kantonalbank. At the same time, S&P Global Ratings affirmed its issue ratings on the bank's senior unsecured notes. The outlook remains stable.

## Rationale

**We expect Graubuendner Kantonalbank will uphold its long-standing franchise and continue diversifying into private banking and asset management.** GKB operates predominantly in its home region, Graubunden, which represents 73% of its outstanding mortgage portfolio. The bank focuses on residential mortgage and small and midsize enterprise lending, with a 50% share of the canton's market. Its investments in BZ Bank, Privatbank Bellerive, and Albin Kistler strengthen the bank's position as a provider of professional institutional investment solutions and advisory services. The sale of its stake in Twelve Capital, an insurance manager, does not interfere with this strategy, in our view.

**GKB's capitalization and very conservative provisioning policy remain a rating strength.** We expect GKB's risk-adjusted capital (RAC) ratio of 30.4% at year-end 2023 will increase to 33.0%-34.0% by 2026, which is very strong by global standards. Our RAC for GKB is significantly higher than its regulatory Tier 1 capital of 18.7% on Dec. 31, 2023, given S&P Global Ratings' lower risk weight for Swiss mortgages.

Similar to other cantonal bank peers, GKB's nonperforming assets were only 0.05% of customer loans. We do not expect the bank will deviate from its underwriting criteria, which supports asset quality through 2025.

The bank has built significant reserves for inherent default risks, based on regulatory requirements, which significantly exceed those of peers. We do not include these reserves in our RAC ratio calculation, but we acknowledge them as a positive qualitative factor that supports our assessment of the bank's capital and risk position.

**GKB demonstrates a strong retail deposit franchise with low reliance on wholesale funding and holds adequate liquidity buffers.** We view GKB's customer deposit base as stable, which is also supported by its cantonal guarantee. Core customer deposits accounted for 67.8% of its funding base as of December 2023, which we view as in line with that of other domestic banks. Our liquidity ratio--broad liquid assets to total assets--was 18.3% for the same period, indicating a good buffer to cover an extended period without access to market funding in an adverse scenario. Broad liquid assets to total assets equal 1.51x. These ratios are in line with most domestic peers' but no longer exceed the superior ratios of other banks where we assign a stronger score. We have therefore revised our liquidity assessment to adequate from strong.

Overall, our reassessment of GKB's liquidity factor has no immediate effect on our ratings on the bank or on our stand-alone credit profile (SACP) for the bank. We also factor in some intrinsic advantages from the cantonal ownership and guarantee into the SACP. Importantly, the cantonal backbone improves availability and lowers the bank's market funding cost.

## Outlook

The stable outlook reflects our view that GKB will continue to benefit from its GRE status and strong ties to its majority owner, the Swiss canton of Graubuenden. We consider there is an extremely high likelihood the canton would provide timely and sufficient extraordinary support to GKB in the event of financial distress. Moreover, we expect the bank will maintain its robust and superior loss-absorption capacity thanks to its high capital and earnings buffer, even if the economic cycle were to worsen materially over our two-year forecast horizon.

## Downside scenario

The likelihood of a downgrade is very low. A negative rating action could occur if there were a change in GKB's role for, or link with, the Canton of Graubuenden, or changes in the statutory guarantee, which could lead us to assess GKB's GRE status as less important.

In the event of a moderate deterioration in the SACP, the potential for extraordinary support from the canton would provide a buffer.

## Upside scenario

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We are unlikely to consider an upgrade in the next 12-24 months. That said, all else remaining equal, we could raise the ratings on GKB if the canton's ability to support the bank during times of financial stress had strengthened.

### Environmental, Social, And Governance

We consider Graubundner Kantonalbank to be exposed to heightened environmental risks given the Alpine canton's dependence on winter tourism and exposure to extreme weather events, such as landslides and floodings. While we regard the bank's current risk management standards as prudent, we consider this important to GKB's medium-term business model. The bank's franchise and mandate are focused on providing basic services to the canton's population and supporting economic development in the region. However, these social factors are only marginally supportive of our credit rating analysis.

### Ratings Score Snapshot

	To	From
<b>Issuer Credit Rating</b>	<b>AA/Stable/A-1+</b>	<b>AA/Stable/A-1+</b>
SACP	a+	a+
Anchor	a-	a-
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Very Strong (+2)	Very Strong (+2)
Risk position	Adequate (0)	Adequate (0)
Funding and liquidity	Adequate and adequate (0)	Adequate and strong (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	+2	+2
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity.

### Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

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2021

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Your Three Minutes In Banking: Higher Minimum Reserve Requirements Will Dent Swiss Banks' Profits, April 26, 2024
- Swiss Banks In 2024: Better Safe Than Sorry, Feb. 22, 2024
- Graubundner Kantonalbank, Dec. 1, 2023

## Ratings List

### Ratings Affirmed

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#### Graubundner Kantonalbank

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Issuer Credit Rating AA/Stable/A-1+

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#### Graubundner Kantonalbank

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Senior Unsecured AA

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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